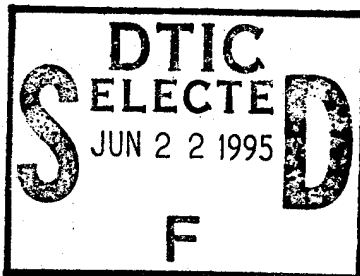


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DOD ACQUISITION REFORM - WILL IT HAVE AN IMPACT?

BY

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by

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ABSTRACT

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In order to meet the military modernization challenge facing the United States in the twenty first century, the Department of Defense (DOD) Acquisition Reform is essential. Military downsizing and reduced defense budgets are necessitating a new approach to meet the required weapons and materiel acquisitions.

This study addresses the DOD Acquisition Reform efforts. Current reform initiatives are analyzed for their impact on reducing product costs, reducing product lead times, stemming the shrinking defense industrial base, and exploiting new technologies. The selected streamlining efforts concerning competition, truth in negotiations, socioeconomic and small business laws, simplified acquisition threshold, industrial base and manufacturing technology, military specifications and standards, and the acquisition oversight and review process are analyzed.

A key issue underpinning DOD's reengineering efforts to create a more effective and efficient acquisition system is the ability of the defense industry to take advantage of current commercial technology and manufacturing expertise. In today's acquisition environment, the commercial sector views government contracting as being over regulated and burdensome when compared to commercial contracting. While analyzing the DOD's acquisition streamlining efforts, the study will provide industry's perspective on the effectiveness of various reform initiatives.

The author, who has held positions as a Program Manager and Purchasing Manager with a major aerospace company, concludes that DOD Acquisition Reform is properly focused. However, continued DOD leadership is critical to meet the new acquisition cultural goals. The DOD can realize an important productivity increase which will lead to reduced product delivery times and costs. American Industry will support DOD Acquisition Reform provided positive contractual requirements result from the efforts.

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INTRODUCTION

This study addresses DOD's Acquisition Reform efforts to meet the military modernization challenge under the present and future budget constraints. The current reform initiatives are analyzed to determine DOD's ability to reduce product costs, reduce product lead times, stem the shrinking defense industrial base, and exploit new, superior technologies. Concurrent with the above analysis, industry's perspective on the effectiveness of the various reform initiatives is presented.

The United States National Security Strategy issued in July 1994 and February 1995 has three central goals: to credibly sustain our security with military forces that are ready to fight; to promote democracy abroad; and to bolster America's economic revitalization.¹ To these ends, the reform of the DOD Acquisition System is receiving particular attention and emphasis. The ability to modernize the US military forces via the acquisition system is a prerequisite for sustained strategic readiness. Given the current and anticipated decrease in defense spending, it is imperative that weapons and materiel be procured more efficiently and at less cost.

The Clinton Administration is placing a strong emphasis on developing America's economic strength. America's national security and military strength are inter-related with its economic strength. Economic security involves the steady creation of quality jobs, globally competitive industry, favorable trade balances, capital creation, and high employee productivity.

National security requires an industrial base that exploits the leading edge of new technologies. This same industry must have the flexibility to react and meet surge production requirements to sustain a war effort in a prolonged war.

Doctor Anita K. Jones, Director of Defense Research and Engineering, best sums the inter-relation between national and economic security, "It is important that the DOD continues to nurture these technologies that hold military promise. The industry that grows to exploit them will contribute to economic security. It will produce products that compete, jobs, and a favorable trade balance. In addition, such industry will serve national security. Such industry has intellectual control of the science and technology ideas that underpin its products. This type of industry also has industrial infrastructure - the production lines, the experimentation laboratories, and the communications between suppliers and primes - that enable flexible reaction to new situations. It is within such technologically capable industry that economic security intersect."²

America's economic success depends on its ability to compete in global markets. During the last two decades, the U.S. has experienced a significant trade deficit, a significant budget deficit, high inflation in the 1970's, and recession during the early 1980's and 1990's. The U.S. economy has stagnated or at best grown at a very modest rate. Enhancing access to foreign markets is seen as key in expanding U.S. business and hence jobs. Bilateral, regional and multilateral arrangements are central for

this expansion. The North American Free Trade Act, General Agreement of Tariffs and Trade, Japan-America Trade Agreements, European Union and Asian Pacific Economic Cooperations, providing Most Favored Nation status to China, and recognizing the government of Vietnam are a few of the on going efforts.

Since World War Two, defense spending expressed as a percentage of Gross Domestic Product has steadily declined.³ This trend occurred during the Cold War and even during the defense build-up of the 1980's. When compared to FY 85, the FY 97 defense spending will decline more than 40 percent in real terms.⁴ The U.S. can no longer afford the current level of DOD acquisition costs. In order to meet mission requirements, fiscal restraint is imperative.

Therefore, DOD is challenged to lower acquisition costs and maintain a modernized force with state-of-the-art technology. With the force structure becoming leaner during the defense build-down of the 1990's, technological superior weapon systems that are reliable and if required, lethal and precision guided, must be available. Further, the systems must be rapidly fielded with a short concept-to-delivery cycle. Otherwise, fielding obsolete systems will negate DOD's investment.

The current and anticipated decrease in defense spending will not sustain a defense-unique industrial base in the U.S. Commercial technology and manufacturing expertise are emerging earlier than in defense industries where defense-unique products are yielded. The DOD must gain access to the commercial

marketplace, utilize commercial products and commercial state-of-the-art technology to the maximum extent possible. The long term effect of expanding the technology and industrial base is to provide an increased surge capacity in order to sustain a war effort.

Within recent history, the importance of maintaining a strong defense industrial base was apparent. During World War Two, the opposing powers recognized its importance. In 1936, Hitler's ambitions and goals were leading Germany on the road to war and expansion. Germany initiated a four year program to prepare its industrial base for war. At the end of their effort, most analysts agree that Germany had the best wartime industrial base of any nation entering World War Two. Hitler had succeeded so well that even following Allied strategic bombing campaigns and military land defeats, the German industrial base was sustaining the war effort. In some cases, the industrial capability was increasing while still expanding the technological base as in rocketry and jet aircraft.

The U.S. took the lead for the Allied Nations. In the 1930's, President Roosevelt saw the coming danger from Germany. He laid the groundwork to prepare the U.S. industrial base for war. Though the U.S. domestic mood favored isolationism, he slowly authorized productions to supply the warring nations. Following the surprise attack on Pearl Harbor, the American homefront united and rapidly converted the commercial industries into the "Arsenal For Democracy". President Roosevelt was able to project astronomical production requirements for aircraft, armor and ships to support a

protracted war effort to defeat the Axis Powers.

CURRENT DOD ACQUISITION SYSTEM

The current DOD Acquisition System is a complicated web of laws, regulations, and policies. The intent of the system is to standardize treatment of contractors; prevent fraud, waste and abuse; ensure the system is fair; and, enhance socioeconomic objectives.⁵ However, the system is cumbersome and creates additional costs to the delivered product through administrative burdens and extended delivery times. During the Cold War companies accommodated the contracting requirements because a significant percentage of defense dollars comprised their business base. With the decrease in defense spending, the high cost of doing DOD business is causing companies to leave or never enter the defense market.

In order to utilize the commercial marketplace, DOD must adopt business processes characteristic of world class suppliers. As stated in the Streamlining Defense Acquisition Laws Report to the U.S. Congress, DOD typically pays a 30 to 50 percent premium over the commercial cost of similar products. The overall ratio of personnel to administer and produce a product in a company's government division versus their commercial division is 5 to 1. Within the specific auditing operation, the ratio jumps to 13 to 1. Materials are another area where costs increased without any added benefit. Most of the companies surveyed attributed the increases

to government legislation and regulation requirements.⁶

The FY 91 National Defense Authorization Act is driving the current acquisition reform effort. Section 800 mandated the establishment of an advisory panel to review, codify, and simplify acquisition law. The Under Secretary of Defense for Acquisition appointed a panel of recognized public and private sector experts in acquisition and procurement policy to review the various laws governing defense acquisition.

On January 12, 1993, the Acquisition Law Advisory Panel issued their report, Streamlining Defense Acquisition Laws, to the U.S. Congress. The report is broken down into eight chapters covering the following areas: Contract Formation; Contract Administration; Service Specific and Major Systems Statutes; Socioeconomic Laws, Small Business, and Simplified Acquisition Threshold; Intellectual Property; Standards of Conduct; Defense Trade and Cooperation; and Commercial Items. These areas will be summarized later and analyzed for their impact on defense acquisitions.

Given the past Presidential and Congressional efforts to streamline acquisition, the question is deserving to be asked why acquisition reform has not occurred? During the Cold War, industry and DOD did not have an incentive to change acquisition practices. Industry and DOD viewed the defense build-up as vital for U.S. National Defense. Defense contractors staffed and facilitated as needed to accept the burden of doing DOD business. The DOD monitored, but cautiously accepted, the increased acquisition costs in order to meet the modernized force end-state.

In the Post Cold War, industry is questioning an array of DOD contracting practices. These include cost accounting standards, rights in technical data, auditing practices, and socioeconomic legislation. Industry is sending a strong message to DOD that in order to remain in the defense market, they can no longer afford stringent and unnecessary contracting burdens. The defense dollar base is not available to warrant such an effort.

The industrial response to the military downsizing and reduced defense dollar is predictable. Out of necessity, defense related industries are downsizing. The expenditures on industry research and development to explore new technologies for defense-unique products is likewise decreasing. Mergers between major companies producing defense core aircraft, armor and ships will occur in order to bolster their competitive positions in the marketplace. Just recently, Martin Marietta and Lockheed announced a merger. They will become the largest aerospace firm in the U.S. Consolidations of this type will become a future way of life.

This presents an interesting dilemma for the DOD. While the benefits of competition are well known and documented, defense related industries are downsizing and consolidating in order to survive. The industrial base, particularly for core products, is decreasing. Therefore, DOD may be unable to gain full and open competition on core products. Industry maintains that consolidations and mergers adds value through reliable products delivered on time, and due to productivity increases, at the best cost.

Before analyzing specific categories, it is important to accomplish a review of the Contract Formation Chapter where the Panel objectives are delineated. Since the contract is the instrument and binding document in the buyer-seller relationship, it is important to understand the underpinnings of acquisition reform. Acquisition laws should identify broad policies and fundamental requirements to achieve efficiency, socioeconomic access, prices comparable to the commercial marketplace, less regulation, rapid resolution of disputes, and the exercise of sound judgment by acquisition personnel.⁷

The last point concerning the acquisition personnel responsibilities is the key to acquisition reform. Too many times an adversarial relationship develops during the execution of a contract. This impedes a good business environment where contract issues may be discussed openly and problems resolved to the benefit both the buyer and seller. Regardless of the reform initiatives adopted, the business relations between the buyer and seller will be the determining factor in success or failure. Acquisition personnel must be empowered by DOD and trusted to exercise sound judgment.

Many reform initiatives have been identified that can yield relief for the acquisition system. It is beyond the scope of this writing to review every initiative. Therefore, selective analysis of initiatives that provide the most promise of meeting DOD's objectives will be accomplished.

COMPETITION

Competition has been the foundation for the buyer-seller relationship in Government contract laws from the earliest days of the U.S. Competition underpins the DOD acquisition process and serves as the national policy of the U.S.⁸

ANALYSIS - Implementing full and open competition is a vital and necessary goal in defense acquisition. Several laws within the last two decades underscore the importance of competition and the government's efforts to utilize the commercial marketplace. These ongoing actions include: the 1972 Commission on Government Procurement; the 1978 Acquisition and Distribution of Commercial Products Program; the 1984 Competition in Contracting Act; the 1986 President's Blue Ribbon Commission on Defense Management; the 1986 Congressional Mandate to Use Nondevelopmental Items; and the 1989 Congressional Direction to Streamline Regulations Governing Commercial Products.⁹

Although competition is a fundamental policy, many DOD acquisitions are made on the basis of sole source. This requirement developed because of the technical nature of military systems and the imposition of military specifications and standards. In many cases, the defense-unique industrial base had the only capability to meet the stringent technical requirements. Unfortunately, an unfavorable trend developed in DOD acquisitions. Though sole source procurements were justified in certain cases of

original equipment manufacture, this practice spilled over into maintenance, repair, and operation procurements where an ample commercial supplier base existed.

The Competition In Contracting Act was an important law that focused attention on the benefits of competition. With its passage, DOD and contractors were held responsible to obtain competition to the maximum extent practicable and document such actions. Initially, there was resistance to this requirement. There were some negative aspects in that it required increased administrative steps to demonstrate competition extent. However, the law had very positive effects by expanding the search for a quality supplier and enhancing a buyer's price analysis and negotiation skills. As a result, a reduction in product costs was realized and documented.

The competitive process will be enhanced with today's emphasis on utilizing commercial technology and commercial products to the maximum extent possible while de-emphazing the imposition of military specifications and standards through contractual requirements. The DOD will see an expanded supplier base and reduced product costs.

TRUTH IN NEGOTIATIONS ACT (TINA)

The Panel considered comments, analysis of the law and the overall subject of the procurement of commercial items. They

concluded that the threshold for the application of the statute should be stabilized at \$500,000 and the statute should be amended to facilitate acquisition of commercial items and leading edge technology.¹⁰

ANALYSIS - The latter recommendation to amend the statute will increase the opportunity to acquire commercial items. Simply by acquiring commercial items, the DOD will see an immediate savings benefit and partake in current technologies. Defense-unique items that are obsolete before fielding have been a hindrance to efficient DOD operations.

Public Law 87-653 (TINA) was passed on 10 September 1962. The original act applied to contracting actions over \$100,000. Public Law 97-86, FY 1982 DOD Authorization Act, raised the threshold to \$500,000. The goal of TINA is to place contracting parties on equal positions at the bargaining table in regards to factual data concerning the projection of costs of performance.¹¹ TINA impacts a contractors accounting, auditing, and negotiation process. In order to comply with the government's cost accounting standards, commercial firms must carefully segregate allowable and unallowable charges in order to develop appropriate government overhead rates. In many cases, the unallowable charges come in conflict with standard commercial practices of doing business such as in the area of travel, advertising, and benefits. Many commercial firms, particularly small business, are unwilling to change their accounting systems or business practices to meet the government

requirements.

The recommendation to stabilize the statute application threshold at \$500,000 is very inadequate. Contractors expend a significant amount of effort to comply with TINA. With today's defense expenditures, defense contractors do not have an incentive to contract with DOD where TINA is applicable. In most cases, a separate government division must be formed and staffed to handle the additional contracting efforts. By law, any authorized representative of the U.S. Government shall have the right, until three years after the final payment under the contract or subcontract, to examine all books, records, documents, and other contractor or subcontractor data related to negotiation, pricing or performance of the contract or subcontract. Adverse findings could lead to price reductions for defective cost or pricing data.

The TINA application threshold limit is too low. If DOD wants to enter the commercial marketplace with full and open competition and reduce the burdens of DOD contracting, the application threshold should be as high as possible. Some simple analysis will demonstrate this. First, with the 1982 threshold set at \$500,000, an annual escalation of 3 percent would place the 1995 threshold at \$734,000. Second, a review of FY 1991 DOD Prime Contract Actions reveals that contracts \$10 million or more encompassed 0.8 percent of total number issued, but covered 50 percent of total dollar amount contracted.¹²

Therefore, the TINA threshold should be raised to \$10 million or higher. Contractors and subcontractors are identifying the

contracting issues for leaving or not entering the defense market. Unless regulation relief is committed to by DOD, the defense industrial base will continue to shrink. Staying with a dollar threshold pertinent in 1982 is not the correct path to take. Since most large dollar prime contracts are awarded to large businesses, the increased threshold limit would relieve more small businesses from the TINA contracting burdens.

SOCIOECONOMIC LAWS AND SMALL BUSINESS

The Panel approach to the issue of socioeconomic legislation assumed that DOD contracts should be subject to the full panoply of socioeconomic legislation. No attempt to assess the correctness of the social goals was accomplished. Accordingly, the Panel focused on streamlining certain parts of existing statutes and suggesting exemptions from socioeconomic laws that were creating serious problems in DOD acquisitions. The Panel recommendations were: Congress should enact a new, comprehensive structure for acquisition of commercial items; Congress should enact a new, comprehensive structure for domestic trade and cooperation; Congress should enact a new, comprehensive structure for smaller purchases; and Congress should enact a comprehensive chapter in Title 10 setting out all socioeconomic laws, and particularly small business laws, that apply to DOD.¹³

ANALYSIS - The above recommendations solidly identify the need

to re-examine and consolidate the current hodgepodge of socioeconomic laws. The goal should be to develop a uniform application and flow down of socioeconomic laws to contractors. In the past, the federal government used the acquisition process to implement policies that have little or no direct relationship with the primary goals of procurement. In a broader sense, many collateral policies restricted the extent of competition. Examples of these collateral policies are: policies favoring small business; policies favoring socially and economically disadvantaged persons; policies assisting women-owned business; policies favoring labor surplus areas concerns; policies implementing preferences to Buy American; and policies implementing environmental, energy, and labor standards.¹⁴ The DOD acquisitions were used as testing grounds for policies pertaining to social programs. However, with the reduction of the defense budget, DOD cannot sustain the additional cost and administrative burden to implement unproductive contractual requirements in the acquisition process.

The array of administrative effort is extremely time consuming during proposals, pre-contract, post-contract and audit activities. Businesses must allocate appropriate purchasing and contract staffs to implement the above policies. The efforts include Small Business Subcontracting Plans, computer assisted programs to track and summarize the various items during audits, subcontract awards based on type of business rather than lowest cost in order to meet program goals, and subcontractor inspections to ensure compliance on the flow down requirements. Many small businesses have the

capability to produce and deliver products for the defense market, but will not bid on solicitations due to the maze of contract requirements. This was even prevalent during the 1980's when high defense spending levels existed.

The Panel's recommendations to streamline the socioeconomic and small business laws is well taken. With the reductions in the DOD workforce, DOD must focus its attention to the primary concerns of acquisition. Contractors will be more inclined to participate in the defense market if the contractual field is leveled better. The concern that small business awards will decrease is unfounded. In a majority of cases, small business can provide a product at a lower cost than large business. Industry lives or dies on the profit-loss line and will find the low cost supplier. The DOD will do the same.

SIMPLIFIED ACQUISITION THRESHOLD

The Panel believes that the best way to streamline smaller purchases is to create a new, uniform simplified acquisition threshold at a level of \$100,000 subject to adjustment every fifth year for inflation. There is probably no single area of acquisition law where there is greater potential to reduce costs than in small dollar contracts. The Federal Acquisition Regulation (FAR) prescribes a range of simplified procedures that would vary by dollar value in terms of such factors as the amount and documentation of competition required, the formality and detail of

price reasonableness documentation and the contract form to be used.

The Panel's final recommendation consists of four parts: establish a simplified acquisition threshold at \$100,000; adjust existing statutory floors to not less than \$100,000; reserve purchases under the simplified acquisition threshold for small purchases; and simplify and modernize contract notice procedures.¹⁵

ANALYSIS - Under the current threshold of \$25,000, the competition and documentation requirements are as follows: less than \$1,000 awards may be issued without competition, but price analysis is required; \$1,000 and more, awards through adequate price competition are desired or non-competitive awards must be fully documented with source justification; \$10,000 and above, publicize by inserting a synopsis of the procurement in the Commerce Business Daily.

Price competition exists if offers are solicited and at least two responsible offerors, who can satisfy the solicitation requirements, independently contend for a contract and submit priced offers responsive to the expressed requirements of the solicitation. The price competition is presumed adequate unless it is determined that the solicitation unreasonably denied an offeror an opportunity to compete, the low competitor had a determinative advantage or the lowest final price is not reasonable.

Price analysis is the process of examining and evaluating a price without evaluation of the separate cost elements. The

various ways to accomplish price analysis are: price quotation comparisons; prior quotations and contract prices comparisons; rough yardstick comparisons; prices set forth in published price lists; and cost estimates independently developed by contracting personnel.¹⁶

In 1991 DOD contracts awarded between the levels of \$25,000 and \$100,000, competition was used in 84.7 percent of the awards.¹⁷ Acquisition personnel that are empowered and trusted will follow a professional buying code of obtaining an on-time delivery at the best quality at the least cost. Competition is the means to this end. Further, during a crisis as in Operations Desert Shield and Storm, DOD authorized a small purchase threshold increase to \$100,000.¹⁸ It was recognized that the rapid mobilization of U.S. and Allied forces required this action to limit the administrative burdens and reduce the product lead times.

Raising the threshold level to \$100,000 will prove to be a cost effective measure. Small purchases can be time consuming when excessive administrative burdens are imposed. In January 1994, the DOD initiated a 24 month time-phased plan to implement the Electronic Commerce/Electronic Data Interchange (EC/EDI). The EC/EDI will permit an electronic quotation and award system. Individual systems in the Services and DLA have shown improvements in productivity, lower product costs, and greater small business participation. The same results are expected throughout the DOD.¹⁹

INDUSTRIAL BASE AND MANUFACTURING TECHNOLOGY

The 1993 National Defense Authorization Act virtually repealed all existing laws and policies regarding defense technology and industrial base and replaced them with more detailed policies. The Act attempted to structure the defense build-down so the U.S. could maintain a strong national technology and industrial base. Definitions of dual use technology and critical technology were introduced. The policy stated that the national technology and industrial base must be capable of: supplying the force structure to meet future U.S. presidential and defense objectives; sustaining production, maintenance and repair, and logistics for various types of military operations; maintaining advanced research and development (R&D) sufficient to ensure technological superiority; and reconstituting for full scale war or national emergency.²⁰

ANALYSIS - To no one's surprise, the defense build-down is having serious effects on the industrial base. One area of special concern is that defense dependent companies will no longer be able to recoup their R&D investment. Therefore, such companies will significantly reduce their Industry R&D expenditures. In the past, the defense industry and the nation's economy relied heavily on this for the technology advancement.

Generally, the prime contractor has responsibility for a system, but the tiered subcontractors produce the assemblies and components. For the most part, the tiered subcontractors develop

the key manufacturing technology and skilled labor. After all the design and development efforts, the key to successful mass production rests with the skilled laborer. They know the processes necessary to produce a quality and reliable assembly or component. This is where the real loss is occurring. During a national crisis, future surge plans will be critically undermined because skilled laborers may not be available.

The goal of merging the commercial and defense sectors of the economy through the development of dual use technologies is more likely to fail than to succeed. Past industry experience shows that defense contractors products for commercial use are usually cost prohibitive. Success will depend on the ability of the defense sector to integrate the use of commercial and nondevelopmental products into military systems. Many military products lend quite well to this concept. However, the core systems such as advanced fighters, armor and ships do not.

In order to obtain capable military products from the current industrial base, the DOD Acquisition System must closely monitor ongoing commercial technology and manufacturing processes, and design defense products around them. In other words, design from the bottom up, rather than from the top down. This keeps the critical element, skilled manufacturing labor, applying familiar manufacturing processes and techniques to defense products. The return will show up in quality and reliability. Further, this ensures that current and advanced commercial technology is inherently designed into defense products.

MILITARY SPECIFICATIONS AND STANDARDS

To the maximum extent practicable, Secretary of Defense William Perry plans to decrease reliance on military specifications and standards. A chartered Process Action Team, "Blueprint For Change," identified tasks necessary to achieve this goal. Four general areas were identified as opportunities to improve materiel acquisition: commercial practices should be used for commercial-like items currently being purchased with military specifications; partnerships with industry should be instituted to embed cooperation into the system; activity based costing systems should be implemented to generate direct correlation between individual costs and specific requirements; and integrated product development techniques should be applied to encourage multi-functional and concurrent approaches to address issues in development, engineering and production. Secretary Perry states that moving to a greater use of performance and commercial specifications and standards is one of the most important actions DOD must take to ensure that DOD meets the military, economic and policy objectives in the future.²¹

ANALYSIS - If DOD is going to meet the challenge of integrating the commercial and defense development and manufacturing bases while facilitating dual use processes and products, the action taken by Secretary Perry is an absolute necessity. A DOD Standardization Program was developed to reduce the proliferation of items in the inventory, force national

standardization by the Services, and ensure quality of items procured by DOD. The fundamental problem is not that the DOD specifies its needs, but that standardization documents are inappropriately written and applied to acquisitions.

There are approximately 31,000 military specifications and standards listed in the DOD Index on Specifications and Standards.²² Many are valid documents in that unique military products and technologies have no commercial equivalents. However, many of the documents describe commercial, off the shelf items. When the obsolete documents on commercial type items are imposed through contract requirements, commercial firms cannot apply their expertise and capabilities to meet defense needs. The end result was usually an extended lead time, an increased cost or a first rate supplier's refusal to bid.

To illustrate the effects of this, the author's personal experience in Purchasing is cited. During a rocket motor development program, a purchasing requirement for a small quantity of fasteners was issued. Contract requirements imposed through the quality assurance provisions defined the strength, material, threading, corrosion protection, and so on. The costs were extremely high because the bidders had to buy small quantities of stock, tool up and provide intensive labor to meet the requirements. The bidders proposed off-the-shelf, alternative fasteners meeting form, fit, and function requirements. An attempt was made to have the procuring agency change the contractual requirements, but to no avail. The purchase order was issued with

the costs in the hundreds of dollars versus a few dollars.

On a large scale, consider the costs involved in the C-17 Airlifter Program. The program was initiated in the late 1970's. For the sake of argument, assume a nondevelopmental aircraft was selected and modified to meet the mission requirements. In the author's opinion, the aerospace industry could accomplish this. Further, assume that only essential engineering change proposals were implemented, and the C-17 was fielded in 1984 versus 1994. A decade of savings could be realized. Applying a 3 percent annual inflation factor will reveal a minimum of 35 percent cost savings by a rapid concept to delivery cycle.

Based on the above, the DOD Acquisition System can only realize reduced acquisition costs by integrating the commercial and defense industries. In order to accomplish this integration, DOD must take on commercial practices. Secretary Perry's initiative to ensure a greater use of commercial specifications and standards will show return in the short term, but more importantly in the long term as we enter the twenty first century.

ACQUISITION OVERSIGHT AND REVIEW PROCESS

Secretary of Defense Perry chartered a process action team to develop a comprehensive plan to reengineer the oversight and review process for systems acquisition in both the Components and OSD. The goal was to make the process more efficient and effective while maintaining an appropriate level of oversight. The process action

team published a two volume final report on 9 December 1994 which defined 33 recommendations.²³ These are:

1. Program Manager Experience Requirements
2. Program Manager Tenure
3. Program Manager Selection Process
4. Integrated Product Team
5. Rotational Assignments
6. Electronic Reporting
7. Joint Service Program Acquisition Executive
8. Reengineered Milestone Review Process
9. Single Pre-Milestone Review Meeting
10. Revised Reporting Requirements
11. Tailored Program Documentation
12. Milestone Review Documentation
13. Optional Formats and Documentation
14. Statutory Reporting Requirements
15. Reduction of Component Specific Documentation
16. Affordability Determinations
17. Cost/Schedule/Performance Trade-offs
18. Contractor Oversight
19. Contractor Past Performance
20. Contractor Self-Governance
21. Program Management Chain
22. Deputy Acquisition Executives
23. Acquisition Workforce Incentives
24. Auditor/Inspector Acquisition Qualifications

25. Central Scheduling of Audits/Inspections
26. Consolidation of Department Audit/Inspection Functions
27. Informing the Acquisition Community of Recommendations
28. Training for Auditors/Inspectors/Oversight Staffs
29. Executive Level Acquisition Training
30. Automated Information Oversight and Review
31. Implementation of Recommendations
32. Stretch Goals
33. Customer Satisfaction Surveys

ANALYSIS - The process action team's recommendations are designed to promote acquisition program stability, reduce cycle times and establish an environment of trust between industry and DOD. A review of the recommendations will reveal an emphasis for experienced and trained personnel at all levels of management, source selections based on contractor performance and quality record, reduced documentation requirements, decision making points that prevent program delays and uncertainties, and a reduction in contractor audits and inspections. The process action team has proposed a reengineering approach that initiates a DOD cultural change.

CONCLUSIONS AND RECOMMENDATIONS

The focus of DOD's Acquisition Reform is that America's National Security Strategy and National Military Strategy are interrelated with its economic security. To have a viable and capable military component to meet the National Security Strategy, military forces must be supplied with the highest quality and technological superior equipment to meet any threat anywhere in the world. With today's budget constraints, acquisition reform is necessary to reduce product costs, reduce product lead times, stem the shrinking defense industrial base and exploit new technologies.

Leadership during acquisition reform is of paramount importance. Personnel in DOD must change years of restrictive acquisition practices and move to a value added environment. Secretary of Defense William Perry recognizes this and is fostering an environment essential for implementing a cultural change. The Deputy Under Secretary of Defense (Acquisition Reform) is the focal point for implementation. Utilizing a quality management approach, reform process action teams are defining a better way of doing business. This is commendable because it reveals that top leadership recognizes that consistency and stability must be placed in the acquisition system. Further, the key to acquisition reform rests with the personnel assigned to carry out the reform. The professional expertise exists, it's just a matter of focusing personnel in the new environment. The new environment must be responsive, effective, efficient, and include joint acquisition

concerns.

Analysis of DOD Acquisition Reform draws me to the following observation. Cost reductions on DOD acquisitions will occur not so much through the application of standard acquisition practices, but through an increase in productivity leading to a reduced delivery cycle. A small purchase that can be delivered in days or weeks versus month(s) will result in savings. Likewise, a major core system delivered in a few years versus decade(s) will result in a significant savings. The C-17 Airlift Program provides a prime example. All services readily admit that strategic lift is critical for the current U.S. National Military Strategy. The delivery of the C-17 in the early 1980's versus the mid 1990's would have had a significant impact on the current system costs and current military capability to react to a regional crisis.

The DOD must approach today's environment just as industry has. While building down, DOD must meet future challenges by moving away from restrictive practices. The DOD must encourage unrestrictive practices such as the use of commercial and performance specifications and standards; conducting audits only when necessary, imposing cost accounting standards only when necessary, lessening the requirement for rights in technical data, and reducing the socioeconomic and contractual burdens. It is important that persistent acquisition program stability issues concerning funding, long lead materiel, economic quantities, etc., be resolved. By adhering to sound business practices, the supplier base will increase, competition will increase, and DOD's buying

power will improve.

Developing and sustaining an industrial base to support DOD's needs is directly related to the success of integrating the defense and commercial bases. Only by this can DOD take advantage of emerging state-of-the-art commercial technologies and up-to-date manufacturing processes. The initiative to move from military to commercial specifications and standards and to develop a team approach with industry are the driving forces. Further, the author projects that it is in the U.S. interest to pursue an expanded FMS program to help sustain a credible industrial base. The arms sales would provide the U.S. a better degree of arms control and knowledge of weapon systems capability deployed into regions of the world. The ability to influence a regional balance of power would be more under U.S. influence.

Given the current global strategic appraisal, a significant threat does not appear capable of challenging U.S. military strength over the next decade. Therefore, the U.S. has a decade to get modernization right. The current DOD acquisitions should focus on upgrading or modifying existing weapon systems to extend their service lives and improve their capabilities. The Army's vertical and horizontal technology integration strategy identifies a realistic, cost effective approach in today's environment. The DOD acquisition emphasis should strive to attain an integrated space, air, land and sea C4I system capable of meeting joint warfighting needs. This aspect, combined with commonality and interoperability of equipment and weapons, will improve U.S. military capabilities

well into the twenty first century.

At the time of this writing, several issues concerning the defense industrial base are a matter of fact. The delivery of U.S. fighters and tanks have ceased and ship production has been reduced to a minimum. From experience, it will be a lengthy time before full scale production can begin. Thus, the U.S. must develop a viable approach for core weapon production. The U.S. must be willing to invest in a strategic acquisition reserve. The basis being that R&D must be adequate to meet the next generation defense needs. If weapon systems production is delayed following a development program then on-the-shelf manufacturing procedures, tooling, and long lead materiels must be produced or acquired to ensure future low-rate initial production start-up. The degree of investment will depend on the acquisition system's ability to obtain needed materiels and labor to ramp up to full scale production. The strategic petroleum reserve is designed to counter oil short falls. The strategic acquisition reserve would counter emerging global threats.

Acquisition reform is working and the Army's acquisition of the TH-67A Creek Training Helicopter illustrates this. The Army acquired the training helicopter by using commercial standards. The training requirement was such that a nondevelopmental helicopter could be utilized. The solicitation consisted of a streamlined fourteen page specification. The contract was issued in March 1993 and the first aircraft was delivered in October 1993. The helicopter was compatible with FAA certified repair facilities

and commercial wholesale parts supply. The helicopter did not need the military support system's unique logistics capabilities.²⁴ A cost effective solution to a well planned acquisition.

In order to meet the defense challenges of the twenty first century, DOD Acquisition Reform is vital. The acquisition reform initiatives identified by DOD can have a significant impact on cost, schedule, quality, and technology integration. Provided DOD is sincere in translating acquisition reform's productive and stabilizing features into contractual requirements, American Industry will respond in a positive manner and work closely with the DOD. Both the DOD and American Industry have a vested interest in each other to merge the defense and commercial sectors. The DOD can expand the need for new technology while industry can provide the know-with-all to reduce product delivery times and acquisition costs.

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